

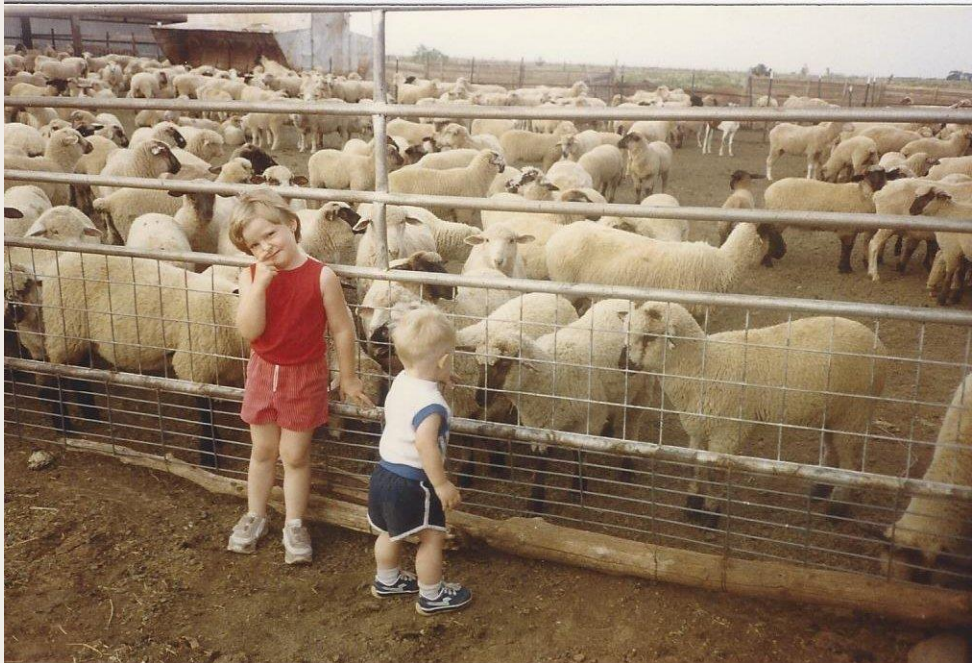
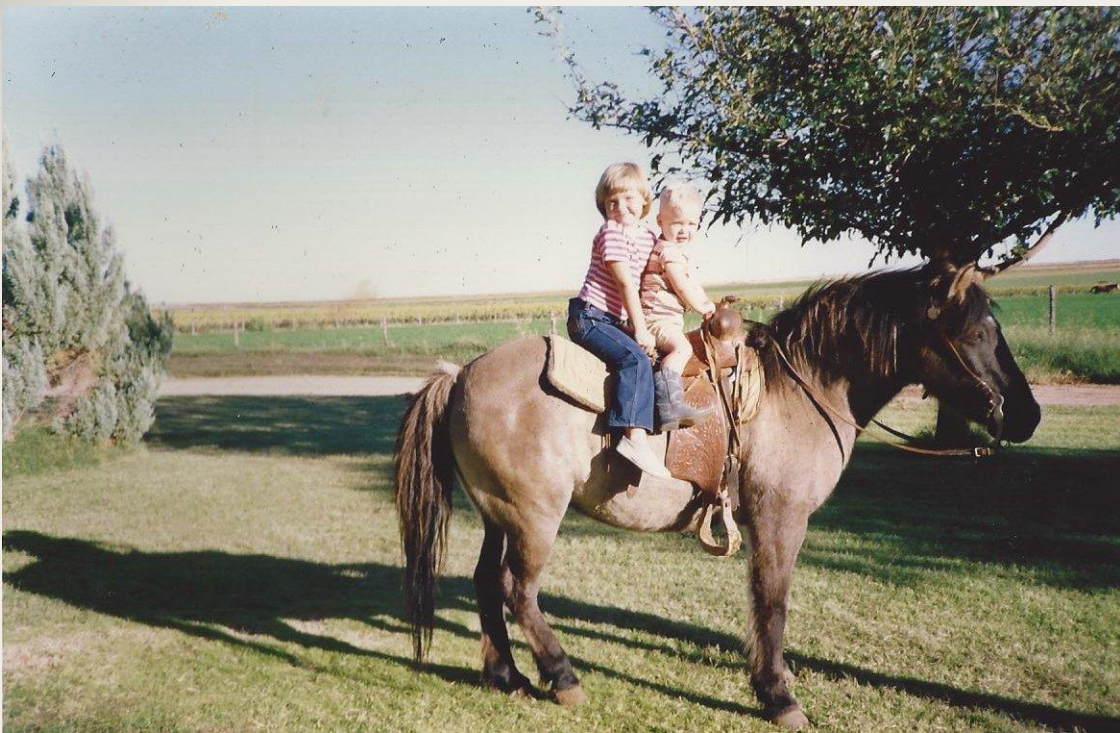
Impact of Conversion of Land from Agricultural Use Property Tax Valuation to Wildlife Use Valuation on the Livestock Industry



Tiffany Dowell Lashmet

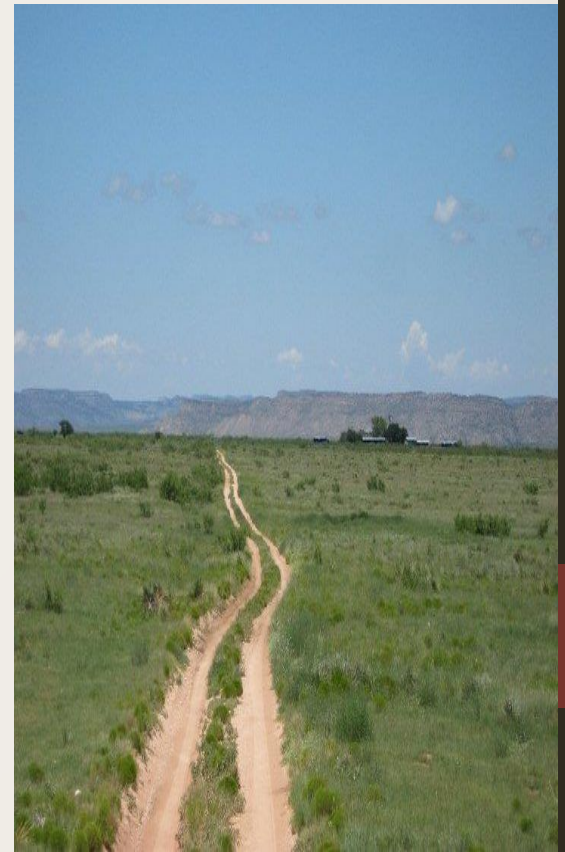
David P. Anderson

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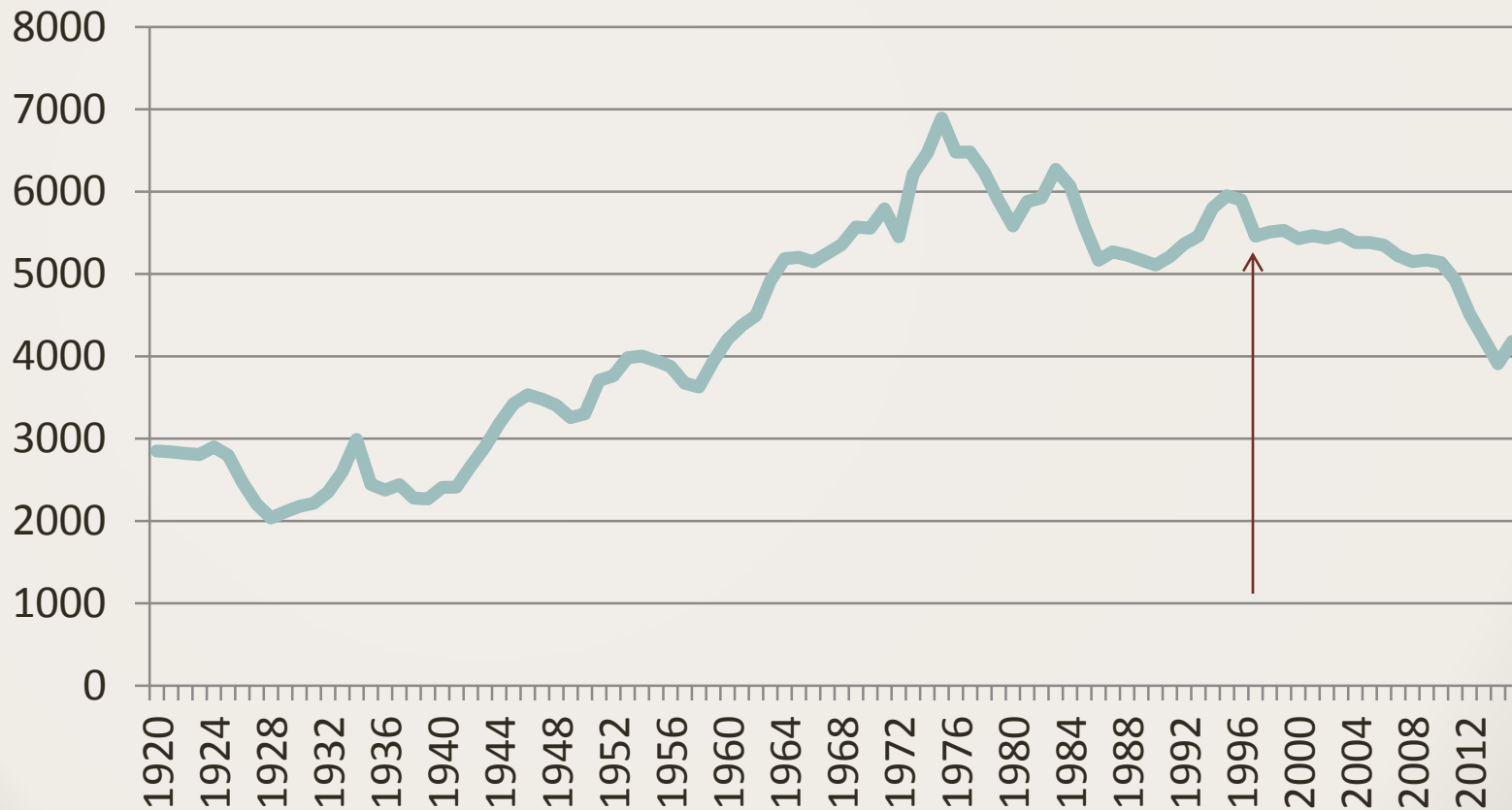
Road Map

- Decrease in Texas Cattle Numbers
- Potential Reasons
- Origination of Special Use Valuation
- Rules for:
 - Agricultural Valuation
 - Open Space Valuation
 - Wildlife Management Valuation
- Potential Impact of Wildlife Use Conversion on Cattle Numbers
- What We Don't Know
- Conclusions



Reduction in Cattle Numbers

Texas Beef Cow Inventory



Potential Reasons

- Drought
 - 2006 drought in South Texas.
 - 2010 drought begins across state.
 - 2011 driest year on record for Texas.
- Low Profitability
 - High feed and other costs
- Conversion to Wildlife Management Use Valuation
 - Some concern that large landowners may elect to stop agricultural operations if not necessary to ensure lower tax rate.

Origination of Special Valuation

- General rule: Property taxed on market value.
- Problem in 1960's
 - Urban sprawl creates increased demand for land.
 - Market value of agricultural land skyrockets.
 - Farmers & ranchers cannot afford to pay taxes on agricultural income.
 - Farmers & ranchers sell land to developers.
 - Threat of America's food supply dwindling.
- Solution: Create special use valuation rules that modify calculation of taxes for certain types of land.
- Tax land on value of agricultural productivity value.
- Most states have some form of ag use valuation for property taxes.

Traditional Ag Use Valuation

- **“Agricultural Valuation”**
 - Constitutional provision passed in 1966.
 - To qualify:
 - Property primarily put to “agricultural use;”
 - Property owned by natural person;
 - Owner earns more than half income from agriculture;
 - Annual application filed; and
 - Land devoted exclusively to agricultural use or continually developed for agricultural use for past 3 years.
- Tax calculated based on average net income land would have yielded under prudent management practices during the past 5 years.
- Difficulties:
 - Farms and ranches using business entities to protect against liability cannot qualify.
 - Farmer who works an off-farm job (or whose spouse works off the farm) may not qualify.

Open Space Valuation

- **“Open Space Valuation”**

- Constitutional provision passed in 1978.
- To qualify:
 - Land currently devoted to agricultural use of degree & intensity generally accepted in the area;
 - For 5/7 past years land principally devoted to agriculture or timber use; and
 - One-time application filed.
- Once qualified, CAD categorizes land.
- Significant County Assessor discretion in standards & approval.
- Taxes calculated based on net value to land, which looks at average annual income that could have been earned using ordinary prudence in managing the land, including hunting leases.

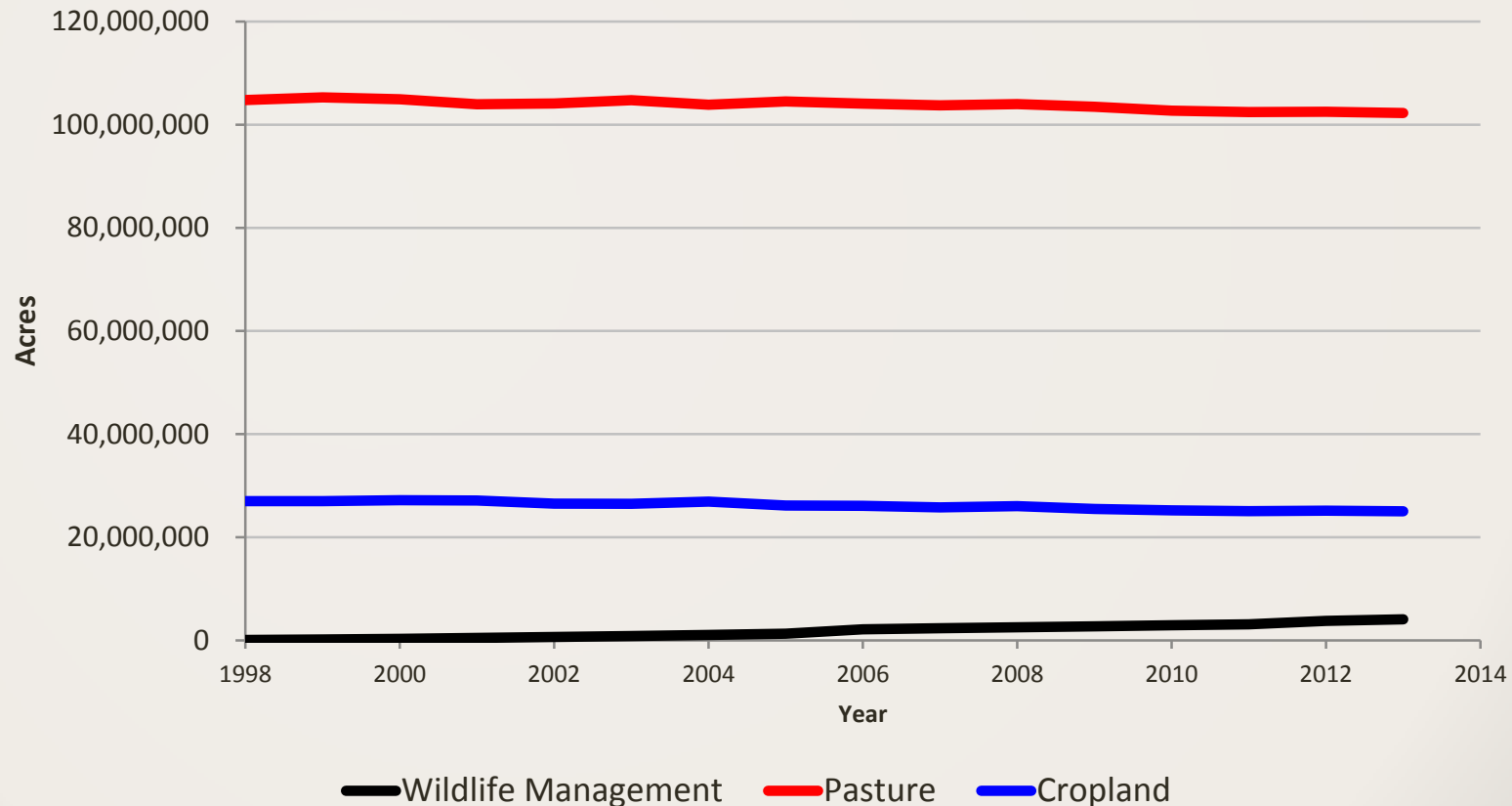
Wildlife Management Valuation

- **“Wildlife Management Valuation”**

- Actually subpart of Open Space Valuation.
- Passed in 1995, effective in 1997.
- To qualify:
 - Land used primarily for “wildlife management;”
 - Either actively used to propagate a sustaining breeding, migrating, or wintering population of indigenous wild animals for human use or actively used to protect a federally listed endangered species if certain criteria met.
 - Land qualified for open space valuation the year prior;
 - Landowner must utilize at least 3/7 listed practices; and
 - Habitat control; erosion control; predator control; providing supplemental supplies of water; providing supplemental supplies of food; providing shelter; making census counts.
 - Application submitted, including wildlife management plan
- Allows special valuation without requiring any agricultural operation.

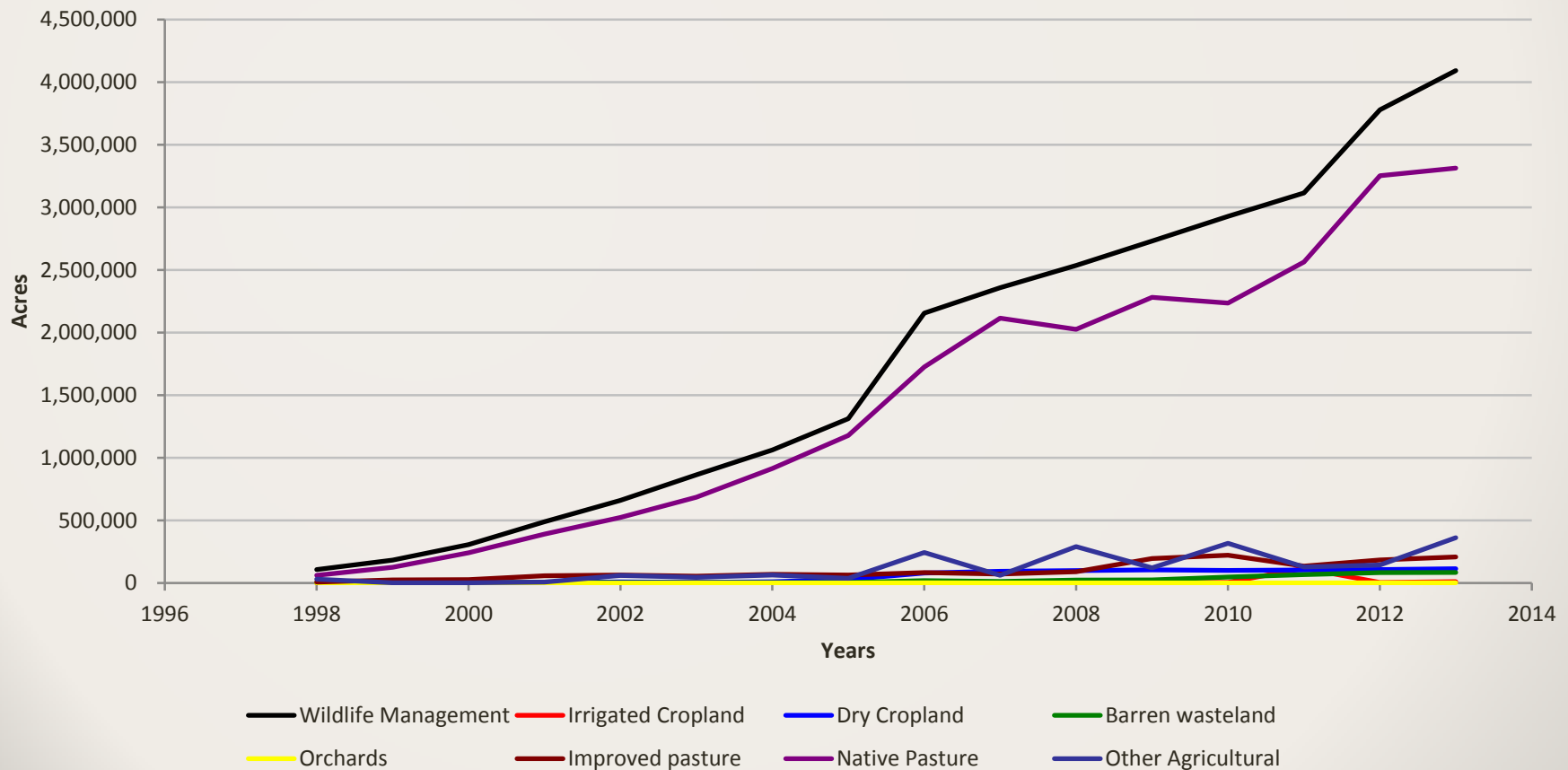
Wildlife Acres Increasing

Texas Land Use



What Land Is Being Converted?

Wildlife Management by Land Category



Potential Impact on Cattle Numbers?

- We know 4.09 million acres were converted to wildlife management, of which 3.52 million acres were pastureland.
- Let's assume, on average, we can run 1 cow to 30 acres.
 - Some land had no cattle, adjust for quality.
- If there are no cattle run on any of the converted acres, the impact is significant:
 - Loss of 120,000 cows, out of 1.5 million lost over the period.



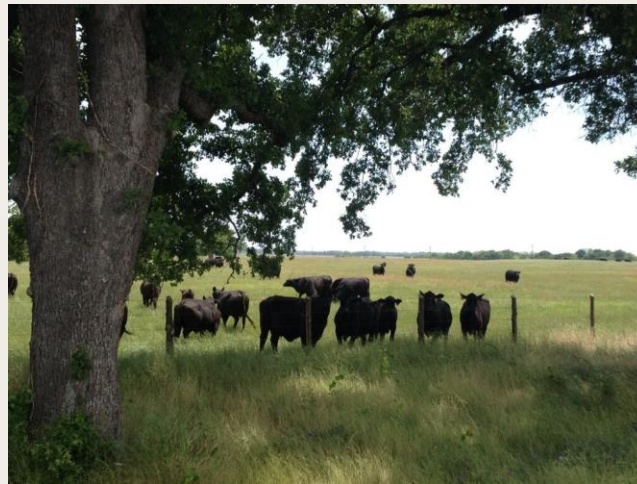
Known Unknowns...

- Number of cows on pasture prior to conversion.
- Whether cattle remain despite conversion to wildlife management.
- Whether decision to sell cattle was based on wildlife management valuation option.



Conclusions

- Number of wildlife management acres totaled 4.09 million in 2013.
- 3.52 million (86%) of these acres were converted from pasture land.
- Once converted, no agricultural practices are required to retain tax valuation.
- It is possible that the conversion of land has caused a significant decrease in the number of cattle in Texas.



Thank you!



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